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171228Z Dec 04

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 002530

SIPDIS

STATE FOR AF/W, EB
STATE PASS USTR FOR AUSTR LISR, COMMERCE FOR ALICIA
ROBINSON-MORGAN,
USDA FOR ROXANA HENDERSON

E.O. 12958: DECL: 12/16/2010

TAGS: [ECON](#) [ETRD](#) [EINV](#) [NI](#)

SUBJECT: NIGERIAN ECONOMY A MIXED STORY; TIFA DELEGATION
MEETS NIGERIAN EXPERTS AND U.S. BUSINESSMEN

REF: A. ABUJA 1946

[1](#)B. ABUJA 1989

[1](#)C. ABUJA 2040

Classified By: Classified by Consul General Brian L. Brian per 1.4 b and d

[1](#)1. (SBU) Summary. Private sector and Nigerian economists and American businessmen with interests in Nigeria told the visiting U.S. delegation to the U.S.-Nigeria Trade and Investment Framework Agreement (TIFA) talks that the Nigerian economy remains a mixed story. President Obasanjo's vaunted economic dream team has crafted and partially implemented some needed economic reforms. However, a myriad of political considerations mixed with cronyism, counterproductive economic nationalism and ambivalence toward free markets have stymied many reforms and produced numerous protectionist measures.

[1](#)2. (SBU) Summary Cont'd: Participants asserted that one of the most significant challenges facing the Nigerian economy is a capricious regulatory environment, characterized by import bans established in a manner that would do Byzantium proud. Nigeria's high-cost business environment poses additional concerns. Nevertheless, participants concurred that Nigeria offers a wealth of business opportunities. Participants urged the U.S. delegation to press the GON for greater economic openness and consistency in order to fuel economic growth and more robust non-oil sector income generation. End summary.

SNAPSHOT OF ECONOMY

[1](#)3. (SBU) Economic experts Ayo Teriba and Bismarck Rewane presented an overview of the Nigerian economy to the U.S. TIFA delegation. With a GDP of \$53 billion (formal economy only), Nigeria has the fourth largest economy in Africa. The average GDP growth rate in the last five years has been 4.9 percent. However, income inequality has also increased. The Gini coefficient for Nigeria is now approximately .60. (Note: The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality -- everyone has the same income -- and 1 corresponds with perfect inequality -- where one person has all the income, and everyone else has zero income. The Gini index for Nigeria was 50.6 during 1996-1997, which was associated with the richest 20 percent of the population accounting for 55.7 percent of income while the poorest 20 percent accounted for 4.4 percent of that period's income. End Note.)

[1](#)4. (SBU) Nigeria's primary sector (agriculture and crude petroleum) accounts for 49% of GDP and services account for 44%. Nigeria's small secondary sector (manufacturing, utilities, and mining) accounts for only 7% of GDP, making the country chronically import-dependent. In 2003, imports of manufactured goods, machinery and transport equipment and chemicals accounted for 73.9 percent of total imports. For most of these items, there is no comparable domestic production, making import bans an ineffective policy for spurring local production.

PRESIDENT CHANGES THE RULES OVERNIGHT

[1](#)5. (C) Dick Kramer, a long-time US businessperson in Nigeria told the TIFA delegation that President Obasanjo is determined to establish a "legacy" before he is constitutionally out of office in 2007. Kramer believed that Obasanjo is under this self-imposed pressure to rush his economic reform plan. He argued Nigeria would have been better served had Obasanjo begun implementing these needed reforms in his first term.

[1](#)6. (C) Fuad Abdullah of Proctor and Gamble expressed

frustration that Nigeria economic conditions often change almost overnight. Lagos Business School Director Pat Utomi remarked that policy formulation often appears as "cloak and dagger" creating an uncertain business environment. The U.S. businessmen noted that corporate investment plans are long-range and require consistent, predictable economic policies. Manufacturers, they said, work on the basis of a 7- to 10-year horizon; while petroleum industry companies often work from 30-year business models. Despite instituting some good economic reforms, Obasanjo has failed to deliver investors what they need most -- predictability and consistency.

DREAM TEAM: MORE BRAINS THAN POLITICAL MUSCLE

17. (SBU) The Nigerian economic analysts and U.S. businessmen concurred that Obasanjo has assembled an impressive "dream team" of economic advisors. Federal budget transparency, the pension reform act, the National Economic Empowerment and Development Strategy (NEEDS), and banking recapitalization were cited as examples of necessary economic initiatives. However, participants said, implementation has lagged. Participants further noted that the economic dream team only has influence over a limited range of economic decisions affecting trade and investment.

WHY BAD THINGS HAPPEN TO GOOD POLICIES

18. (SBU) Participants said some policies intended to reform and benefit the economy are having unintended negative effects. For example, Rewane asserted that thus far the only implementation of the pension reform is that money is being deducted from federal employees's paychecks to be set aside for eventual investment. But because adequate investment vehicles do not yet exist for these monies, the pension reform is having the effect of decreasing consumer purchasing power without a counterbalancing increase in investment. Similarly, participants assessed the banking reform requiring a minimum 25 billion naira capitalization base for all banks as a good initiative. However, the demand that banks attain this level in only 18 months -- was problematic, they said. The result has been hurried mergers and an erosion in public confidence in the banking sector.

Import Bans - Bane of Existence

19. (SBU) Problems posed by import bans are having a much larger negative impact on both local and international companies operating in Nigeria. The bans purportedly are to protect and encourage local production. Yet, because of the ad-hocery that characterizes the ban and tariff regime, even this stated goal is hardly realized. Many local manufacturers have been unable to obtain or afford production inputs because many import bans prohibit goods required in their manufacturing processes. In some areas, local manufacturers have been forced to close or reduce operations, leaving the country even more dependent on imports in these sectors -- exactly the situation the GON intended to reverse.

110. (C) Abdullah of Proctor and Gamble said P & G has yet to see a profit on USD 50 million invested in Nigeria (ref A). Nigeria's ban on essential manufacturing inputs not available locally caused the company to lose USD 50,000 per day from July to November. Abdullah said President Obasanjo's promise in September to lift the ban was not effectuated until late November. Abdullah added it would be helpful if there were a single point person within the GON with whom multinational companies could liaise. (Comment: The bans symbolize the duality of the Nigerian economic environment. On one hand, some reform is afoot. On the other, political and other objectives trump purely economic considerations. It is in this complex ambit of political payback and nepotism, regional and ethnic considerations, and corruption, that the ban and tariff regime is crafted. Moreover, it is authored by people not on the economic dream team, but by those within the innermost circle of political confidants and loyalists. The decisional process is opaque. The players involved often shift, depending on the particular issue in question. As a result, the tariff/ban regime has become a patchwork of protection of special interests that are not even always internally consistent. End Comment.)

Nigeria's High-Cost Business Environment

111. (C) Peter Yap, MD of Harris Corporation, the largest supplier of telecomm equipment in Nigeria, told the U.S. TIFA delegation of "perpetual challenges" characterizing the Nigerian business climate. Lack of transparency, excessive import document requirements, the need for additional security measures, infrastructure weaknesses, civil disturbances were all perennial features of the Nigerian landscape, Yap said. Paul McKee of Seaboard Group echoed Yap's sentiments, telling the delegation that Nigeria is an

unnecessarily expensive business environment. Companies must often supply their own power, water, and road maintenance and even when a company is prepared to tackle these infrastructure challenges, it still must contend with corruption. McKee noted for example that Seaboard was willing to pave the road leading into its facilities, but was prevented from doing so by local political bosses who derive rent from getting successive contracts to repair roads and never fulfilling the contracts.

12. (SBU) Nigerian economic experts and U.S. businessmen pleaded for greater predictability and stability from the GON and urged the USG to exhort the GON on their behalf. The US TIFA delegation raised these concerns with GON officials, but did not receive much traction. (See ref C for a report on the formal GON-USG trade and investment talks).

13. (C) Comment: President Obasanjo has given his economic advisers some latitude in developing progressive economic reforms. However, there are cross currents. Obasanjo is at core a military man. His life experiences have been based on control and hierarchical systems' attributes counterproductive to economic growth and dynamism. In addition, as described ref B, economic reforms are constrained by a complex web of counterpoised patron/client networks. Obasanjo is beholden to this system, which helped him ascend to the presidency and his economic decisions must respect the business interests of those in this club.

14. (C) Comment Cont'd. Moreover, the issue is not just Obasanjo; rather there is an entire, powerful body of people who are reluctant to fully embrace market forces. In sum, there are three sets of players on the Nigerian economic stage: 1) Reformers; 2) Those who tepidly back reform as long as they are not unduly hurt; and 3) Those who favor the protectionist status quo. Groups one and three are antinomies and will never reconcile. Ultimate victory belongs to the side that can win the majority of members of the middle group. End Comment.

15. (SBU) Participants in the Nigerian Economic Expert Session: Bismarck J. Rewane, CEO and MD of Financial Derivatives, Ayodele O. Teriba, CEO of Economic Associates, Atedo Peterside, CEO of Investment Banking and Trust Company (IBTC), Prof. Pat Utomi, Director Lagos Business School, Albert Okumagba, CEO and MD of BGL Limited, and Dirk Smet, MD of Starcomms Nigeria.

16. (SBU) Participants in the US business session: Dick Kramer, CEO of Strategic Research Investment, Khalid Qurashi, MD of Citigroup, Fuad Abdullah, Head of Direct Product Supply for Sub-Saharan Africa, Procter & Gamble, Paul McKee of Seaboard Group, Aedo Van der Weij of Cargill, and Jules Harvey, MD/CEO of Texaco Nigeria. Peter Yap, Harris Corporation.

17. (U) This cable has been cleared by Embassy Abuja.
BROWNE